

UNITED WAY OF RHODE ISLAND, INC.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2013 AND 2012

INDEPENDENT AUDITORS' REPORT



SANSIVERI, KIMBALL & CO., L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
United Way of Rhode Island, Inc.:

We have audited the accompanying financial statements of United Way of Rhode Island, Inc. (UWRI), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Way of Rhode Island, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Aonsiveri Kimball & Co., L.L.P.

Providence, Rhode Island
November 13, 2013

UNITED WAY OF RHODE ISLAND, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|----------------------|----------------------|
| ASSETS: | | |
| Cash | \$ 1,370,875 | \$ 2,043,452 |
| Pledges receivables: | | |
| 2012-2013 fundraising campaign | 5,347,802 | - |
| 2011-2012 fundraising campaign | 41,666 | 5,831,096 |
| 2010-2011 fundraising campaign | - | 39,985 |
| Gross pledges receivable | 5,389,468 | 5,871,081 |
| Less allowance for uncollectible pledges | 295,055 | 325,164 |
| Pledges receivable, net | 5,094,413 | 5,545,917 |
| Contributions and grant receivables | 961,567 | 1,108,851 |
| Investments: | | |
| Certificates of deposit: | | |
| Campaign | 5,644,497 | 5,625,158 |
| Board-designated building fund | 550,000 | 550,000 |
| Fund held in trust by The Rhode Island Foundation | 956,583 | 770,181 |
| Mutual funds | 97,069 | 89,036 |
| Total investments | 7,248,149 | 7,034,375 |
| Prepaid expenses and other assets | 116,892 | 56,271 |
| Cash-donor restricted to investment in building | 246,367 | 240,367 |
| Property and equipment, net | 1,466,040 | 1,732,613 |
| Property under capital lease, net of accumulated amortization of \$300,101 and \$241,065 in 2013 and 2012, respectively | 585,443 | 644,479 |
| TOTAL ASSETS | \$ 17,089,746 | \$ 18,406,325 |
| LIABILITIES: | | |
| Campaign designations payable | \$ 3,701,828 | \$ 3,703,702 |
| Community impact grants and awards payable | 3,292,145 | 3,386,147 |
| Accounts payable and accrued expenses | 747,094 | 856,042 |
| Obligation under capital lease | 833,899 | 849,947 |
| Total liabilities | 8,574,966 | 8,795,838 |
| COMMITMENTS | | |
| NET ASSETS: | | |
| Unrestricted: | | |
| Board-designated purposes | 4,124,267 | 4,826,619 |
| Net investment in property and equipment | 1,466,040 | 1,732,613 |
| Undesignated - general operations | 2,115,990 | 1,973,698 |
| Total unrestricted net assets | 7,706,297 | 8,532,930 |
| Temporarily restricted | 710,090 | 979,164 |
| Permanently restricted | 98,393 | 98,393 |
| Total net assets | 8,514,780 | 9,610,487 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 17,089,746 | \$ 18,406,325 |

See notes to financial statements.

UNITED WAY OF RHODE ISLAND, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | | | | 2012 | | | |
|--|---------------|------------------------|------------------------|---------------|---------------|------------------------|------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUES, GAINS AND OTHER SUPPORT: | | | | | | | | |
| Campaign revenue: | | | | | | | | |
| Campaign pledges generated | \$ 12,428,155 | \$ 162,648 | | \$ 12,590,803 | \$ 12,612,111 | \$ 260,000 | | \$ 12,872,111 |
| Recovery of prior year campaign pledges written-off | 106,280 | | | 106,280 | 40,278 | | | 40,278 |
| Philanthropy Fund | 458,632 | | | 458,632 | 393,189 | | | 393,189 |
| Less provision for uncollectible pledges | (300,000) | | | (300,000) | (325,000) | | | (325,000) |
| Less amounts designated by donors | (5,897,556) | | | (5,897,556) | (5,918,667) | | | (5,918,667) |
| Campaign revenue, net | 6,795,511 | 162,648 | \$ - | 6,958,159 | 6,801,911 | 260,000 | \$ - | 7,061,911 |
| Contribution income from The Rhode Island Foundation generated from: | | | | | | | | |
| Designated funds | 2,878,376 | | | 2,878,376 | 2,905,342 | | | 2,905,342 |
| Royalties | 440,252 | | | 440,252 | 532,743 | | | 532,743 |
| Special program income | 1,432,360 | 194,940 | | 1,627,300 | 898,934 | 328,229 | | 1,227,163 |
| Other income | 271,552 | 6,000 | | 277,552 | 146,834 | 1,700 | | 148,534 |
| Interest income | 46,996 | | | 46,996 | 37,804 | | | 37,804 |
| Income (loss) from fund held in trust by The Rhode Island Foundation | 96,577 | | | 96,577 | (3,271) | | | (3,271) |
| Unrealized gains on investments | 8,033 | | | 8,033 | 9,817 | | | 9,817 |
| Net assets released from restrictions - Satisfaction of purpose restrictions | 632,662 | (632,662) | | - | 879,209 | (879,209) | | - |
| Total revenues, gains and other support | 12,602,319 | (269,074) | - | 12,333,245 | 12,209,323 | (289,280) | - | 11,920,043 |
| EXPENSES: | | | | | | | | |
| Programs: | | | | | | | | |
| Community impact grants and awards: | | | | | | | | |
| Impact Group Grants | 5,735,147 | | | 5,735,147 | 6,128,381 | | | 6,128,381 |
| Emerging Issue Fund Grants | 289,000 | | | 289,000 | 188,500 | | | 188,500 |
| Issue Fund Grants/Special Initiatives | 577,350 | | | 577,350 | 679,967 | | | 679,967 |
| Allocated by the United Way of Rhode Island, Inc. | 6,601,497 | - | - | 6,601,497 | 6,996,848 | - | - | 6,996,848 |
| Program services | 3,577,506 | | | 3,577,506 | 3,434,180 | | | 3,434,180 |
| Total program expenses | 10,179,003 | - | - | 10,179,003 | 10,431,028 | - | - | 10,431,028 |
| Supporting services: | | | | | | | | |
| Fundraising and public relations | 2,259,596 | | | 2,259,596 | 2,240,752 | | | 2,240,752 |
| Management and general | 990,353 | | | 990,353 | 881,103 | | | 881,103 |
| Total program and support services | 13,428,952 | - | - | 13,428,952 | 13,552,883 | - | - | 13,552,883 |
| CHANGE IN NET ASSETS | (826,633) | (269,074) | - | (1,095,707) | (1,343,560) | (289,280) | - | (1,632,840) |
| NET ASSETS, BEGINNING OF THE YEAR | 8,532,930 | 979,164 | 98,393 | 9,610,487 | 9,876,490 | 1,268,444 | 98,393 | 11,243,327 |
| NET ASSETS, END OF THE YEAR | \$ 7,706,297 | \$ 710,090 | \$ 98,393 | \$ 8,514,780 | \$ 8,532,930 | \$ 979,164 | \$ 98,393 | \$ 9,610,487 |

See notes to financial statements.

UNITED WAY OF RHODE ISLAND, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | | | 2012 | | | | |
|---|---------------|----------------------------------|------------------------|----------------|---------------|----------------------------------|------------------------|----------------|
| | Program | Fundraising and Public Relations | Management and General | Total Expenses | Program | Fundraising and Public Relations | Management and General | Total Expenses |
| Salaries | \$ 1,365,285 | \$ 957,560 | \$ 954,465 | \$ 3,277,310 | \$ 1,329,816 | \$ 916,806 | \$ 973,117 | \$ 3,219,739 |
| Employee benefits | 257,936 | 194,773 | 195,164 | 647,873 | 241,169 | 179,434 | 187,316 | 607,919 |
| Payroll taxes | 106,423 | 83,568 | 67,148 | 257,139 | 101,735 | 78,608 | 67,342 | 247,685 |
| Professional fees and contractual services | 305,800 | 59,927 | 133,912 | 499,639 | 295,180 | 90,757 | 87,795 | 473,732 |
| Government & private foundation grants | 285,670 | - | - | 285,670 | 275,529 | - | - | 275,529 |
| Building - interest and rent expense | 141,765 | 82,254 | 39,675 | 263,694 | 140,322 | 84,192 | 41,358 | 265,872 |
| Occupancy | 103,647 | 60,136 | 35,007 | 198,790 | 101,707 | 60,851 | 29,893 | 192,451 |
| Supplies | 16,650 | 115,546 | 8,321 | 140,517 | 14,179 | 116,171 | 9,339 | 139,689 |
| Special events | 22,818 | 46,437 | 21,519 | 90,774 | 30,078 | 57,734 | 16,830 | 104,642 |
| Advertising | 199,152 | 157,763 | 6,369 | 363,284 | 133,479 | 160,186 | - | 293,665 |
| Equipment - repairs and rental | 20,706 | 18,960 | 77,556 | 117,222 | 23,437 | 21,762 | 63,163 | 108,362 |
| Staff training and conferences | 64,264 | 146 | 42,315 | 106,725 | 65,113 | - | 44,303 | 109,416 |
| Postage and shipping | 9,433 | 22,428 | 9,943 | 41,804 | 7,560 | 21,037 | 8,097 | 36,694 |
| Miscellaneous | 3,273 | 16,379 | 76,164 | 95,816 | 12,838 | 11,877 | 39,783 | 64,498 |
| Telephone and internet | 23,956 | 12,130 | 7,237 | 43,323 | 26,583 | 11,331 | 7,875 | 45,789 |
| Subscriptions and publications | 918 | 2,190 | 11,197 | 14,305 | 1,145 | 1,919 | 10,000 | 13,064 |
| Local transportation | 5,421 | 12,963 | 539 | 18,923 | 6,237 | 11,089 | 790 | 18,116 |
| Recruitment | 1,049 | - | 2,804 | 3,853 | - | - | 6,512 | 6,512 |
| Membership dues | 64,800 | 37,597 | 18,135 | 120,532 | 67,025 | 33,865 | 26,105 | 126,995 |
| Total expenses before depreciation and amortization | 2,998,966 | 1,880,757 | 1,707,470 | 6,587,193 | 2,873,132 | 1,857,619 | 1,619,618 | 6,350,369 |
| Depreciation and amortization | 169,818 | 94,747 | 70,582 | 335,147 | 166,102 | 95,866 | 71,756 | 333,724 |
| Support services reimbursements from program grants | (25,000) | - | (69,885) | (94,885) | (37,500) | (5,000) | (85,558) | (128,058) |
| Allocation of supporting services* | 433,722 | 284,092 | (717,814) | - | 432,446 | 292,267 | (724,713) | - |
| Community impact grants and awards | 6,601,497 | - | - | 6,601,497 | 6,996,848 | - | - | 6,996,848 |
| Total | \$ 10,179,003 | \$ 2,259,596 | \$ 990,353 | \$ 13,428,952 | \$ 10,431,028 | \$ 2,240,752 | \$ 881,103 | \$ 13,552,883 |

*Allocation of Executive Compensation, Insurances, and Support Services (Human Resources & Information Technology).

See notes to financial statements.

UNITED WAY OF RHODE ISLAND, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (1,095,707) | \$ (1,632,840) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Provision for uncollectible pledges | 300,000 | 325,000 |
| Depreciation and amortization | 335,147 | 333,724 |
| (Income) loss from fund held in trust by The Rhode Island Foundation | (96,577) | 3,271 |
| Unrealized gains on investments | (8,033) | (9,871) |
| Asset restricted for long-term purpose - Investment in building | (6,000) | (1,500) |
| Changes in operating assets and liabilities: | | |
| Pledges receivable, net | 151,504 | (894,846) |
| Contributions and grant receivables | 147,284 | (87,048) |
| Prepaid expenses and other assets | (60,621) | 56,213 |
| Campaign designations payable | (1,874) | 123,548 |
| Community impact grants and awards payable | (94,002) | 932,211 |
| Accounts payable and accrued expenses | (108,948) | 73,259 |
| NET CASH USED BY OPERATING ACTIVITIES | <u>(537,827)</u> | <u>(778,879)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of: | | |
| Property and equipment | (9,538) | (72,351) |
| Investments | (2,640,229) | (2,400,653) |
| Increase in cash donor-restricted to investment in building | (6,000) | (1,500) |
| Proceeds from sale of investments | 2,531,065 | 3,775,448 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>(124,702)</u> | <u>1,300,944</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from contributions restricted for - Investment in building | 6,000 | 1,500 |
| Payments on capital lease obligation | (16,048) | (12,412) |
| NET CASH FLOWS USED BY FINANCING ACTIVITIES | <u>(10,048)</u> | <u>(10,912)</u> |
| NET INCREASE (DECREASE) IN CASH | (672,577) | 511,153 |
| CASH, BEGINNING OF THE YEAR | <u>2,043,452</u> | <u>1,532,299</u> |
| CASH, END OF THE YEAR | <u>\$ 1,370,875</u> | <u>\$ 2,043,452</u> |

See notes to financial statements.

UNITED WAY OF RHODE ISLAND, INC.
NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

United Way of Rhode Island, Inc. (UWRI) is a not-for-profit organization dedicated to “mobilizing the caring power of the community to improve the lives of people in need.” UWRI works with its community and funding partners to identify the issues that matter most and respond to them by focusing resources on effective solutions.

Proceeds from UWRI Community Impact Fund are employed to reduce homelessness and increase the availability of affordable homes for working people; provide job skills and employment opportunities to low-skilled Rhode Islanders so they can earn a decent wage and better care for their families; and support children’s success in schools and connect people to the services they need through *United Way 2-1-1 in RI*. UWRI collaborates with representatives from the business, government, labor, education and nonprofit sectors to identify the best solutions for our most challenging social issues and ensure that every investment and community initiative are monitored for ongoing effectiveness.

Contributions are obtained from local businesses, individuals, and charitable foundations. These funds are distributed to agencies and services as designated by donors or as allocated by UWRI.

Basis of Financial Reporting

UWRI prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of Presentation

To ensure observance of limitations and restrictions placed on the use of the resources available to UWRI, the accounts of UWRI are maintained in three net asset groups as follows:

- Unrestricted net asset group - includes funds which management and the Board of Directors of UWRI retain full control to use in achieving any of their organizational purposes. This group also includes board-designated net assets which represent unrestricted net assets that the Board of Directors has voluntarily placed restrictions thereon.

- Temporarily restricted net asset group - includes funds restricted by outside sources, which may only be utilized in accordance with purposes and/or time periods established by the donor of such funds.
- Permanently restricted net asset group - includes funds permanently restricted by outside sources, which require that the principal be invested in perpetuity and only the income be utilized by UWRI. Income may be utilized for unrestricted purposes or temporarily restricted purposes as established by the donor of such funds.

Receivables

Pledges

UWRI conducts annual fundraising campaigns. Any annual fundraising campaign pledges which remain outstanding after the subsequent campaign year are written off as uncollectible with the exception of those determined to be collectible.

The allowance for uncollectible pledges is determined based on historical campaign pledge loss experience and adjusted for current economic conditions. In addition, such allowance is based on an analysis of overall campaign pledges, including corporate gifts, individual gifts, and employee workplace campaigns.

Contributions

Contributions that are not from the annual fundraising campaign, including unconditional promises to give, are recognized in the period the contribution or promise is made. Conditional promises to give are not recognized until they become unconditional, that is when the conditions are substantially met. Unconditional promises expected to be collected in future years are recorded at the present value of expected future cash flows. The cash flows are discounted at a discount rate commensurate with the risks involved and at the date the promise was made. As of June 30, 2013 and 2012, all amounts are due within one year and, therefore, a discount was not required. When considered necessary, an allowance is recorded based on management's estimate of uncollectibility including such factors as prior collection history, type of contribution, and the nature of the fundraising activity.

Investments

Investments include certificates of deposit, funds held in trust by others, cash equivalents that have been designated for investment, and other short-term investments. Certificates of deposit are carried at cost, which approximates fair value. Interest income related to the certificates of deposit is reflected in the statement of activities. Short-term investments and fund held in trust by The Rhode Island Foundation are adjusted annually to fair value, and any gains or losses are reflected in the statement of activities.

Property and Equipment

Property and equipment is recorded at cost or, if donated, at the fair market value at the date of the gift. Property and equipment is capitalized if the asset costs more than \$1,250 and has a useful life beyond one year. Property and equipment is depreciated using the straight-line method over the estimated useful lives. Amortization of leasehold improvements is computed over the lesser of the assets' useful lives or related lease term.

Campaign Designations Payable

In connection with the annual fundraising campaign, UWRI accepts assets from donors and agrees to transfer the assets to the beneficiary named by the donors. The named beneficiary must be a 501(c)(3) organization.

Community Impact Grants and Awards Payable

Community impact grants and awards payable are payable to various not-for-profit organizations. The contribution expense and related liability are recognized in the period the Board of Directors authorizes and commits to the recipient organizations.

Revenue Recognition

All contributions are considered to be available for use by the various programs and general operations of UWRI unless specifically restricted by the donor. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. UWRI records contributions with donor imposed restrictions that are fulfilled in the same time period in which the contribution is received as unrestricted support.

Contributed Services

Contributed services are recognized if the services create or enhance nonfinancial assets, or require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services are recorded at their estimated fair value at the date of receipt. For the years ended June 30, 2013 and 2012, contributed services meeting the aforementioned criteria were \$10,747 and \$17,632, respectively.

Allocation of Indirect Costs

UWRI reports expenses by their functional classification. Accordingly, workers' compensation insurance has been allocated to functional classifications based upon a percentage of total salaries; depreciation and amortization have been allocated based upon the full-time equivalent (FTE) method. In addition to these allocations, UWRI has functionally allocated a portion of executive compensation, occupancy, and organizational development using the FTE method. Information technology, human resources and organizational development are support services that provide support to the

entire organization and have been allocated to functional classifications using the FTE method.

Tax-Exempt Status

UWRI is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), as a charitable organization whereby only unrelated business income, as defined by Section 512(a)(1) of the Code is subject to Federal income tax. UWRI had no unrelated business income for the years ended June 30, 2013 and 2012. Accordingly, a provision for income taxes has not been recorded in the accompanying financial statements.

UWRI evaluates all significant tax positions. As of June 30, 2013, UWRI does not believe that they have taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. UWRI's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of June 30, 2013, UWRI's income tax returns generally remain open for examination for three years from the date filed with each taxing jurisdiction.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include the allowance for uncollectible pledges receivable, the fair value of mutual funds and fund held in trust by The Rhode Island Foundation, the estimated useful lives used to depreciate property and equipment and property under capital lease, and allocation of functional expenses. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through November 13, 2013, which is the date the financial statements were available to be issued.

Reclassifications

Certain amounts reported in the 2012 financial statements have been reclassified to conform to the 2013 presentation. Specifically, certain expenses which are previously identified as program expenses were allocated to program service and supporting services.

2. PROPERTY AND EQUIPMENT

As of June 30, 2013 and 2012, property and equipment consisted of the following:

| | 2013 | 2012 |
|--|---------------------|---------------------|
| Land | \$ 25,000 | \$ 25,000 |
| Leasehold improvements | 2,170,512 | 2,170,512 |
| Equipment | 570,783 | 561,247 |
| Motor vehicle | 24,775 | 24,775 |
| Total property and equipment | 2,791,070 | 2,781,534 |
| Less accumulated depreciation and amortization | 1,325,030 | 1,048,921 |
| Property and equipment, net | <u>\$ 1,466,040</u> | <u>\$ 1,732,613</u> |

3. FAIR VALUE MEASUREMENTS

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, U.S. GAAP established a fair value hierarchy that prioritizes observable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that UWRI has the ability to access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices, other than quoted prices within Level 1, including:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs which are used when little or no market activity is available at the measurement date. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, UWRI utilizes valuation techniques that maximize the use of observable inputs to the extent possible.

Financial instruments carried at fair value at June 30, 2013 and 2012 are classified in the table below in one of the three categories described above:

| | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|---|--|--|-------------------------------------|
| Fair Value | | | |
| 2013 | | | |
| Investments: | | | |
| Fund Held in Trust by | | | |
| The Rhode Island Foundation | \$ 956,583 | | \$ 956,583 |
| Mutual Funds - invested primarily in real estate | 97,069 | \$ 97,069 | |
| Total | <u>\$1,053,652</u> | <u>\$ 97,069</u> | <u>\$ -</u> <u>\$ 956,583</u> |

| | | | |
|---|-------------------|------------------|-------------------------------|
| 2012 | | | |
| Investments: | | | |
| Fund Held in Trust by | | | |
| The Rhode Island Foundation | \$ 770,181 | | \$ 770,181 |
| Mutual Funds - invested primarily in real estate | 89,036 | \$ 89,036 | |
| Total | <u>\$ 859,217</u> | <u>\$ 89,036</u> | <u>\$ -</u> <u>\$ 770,181</u> |

For the years ended June 30, 2013 and 2012, activity related to level three inputs consisted of the following:

| | 2013 | 2012 |
|---|-----------------------------|-----------------------------|
| Fund Held in Trust by The Rhode Island Foundation | | |
| at beginning of the year | \$ 770,181 | \$ 648,282 |
| Deposits | 120,891 | 150,564 |
| Net investment return | 96,577 | (3,271) |
| Fees | (6,051) | (5,013) |
| Funds distributed to UWRI | (25,015) | (20,381) |
| | <u> </u> | <u> </u> |
| Fund Held in Trust by The Rhode Island Foundation | | |
| at end of the year | <u>\$ 956,583</u> | <u>\$ 770,181</u> |

Following is a description of the valuation methodologies used for assets reported at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

Mutual Funds: Valued at the net asset value of shares held by UWRI based upon quoted market prices.

Fund Held in Trust by The Rhode Island Foundation: Valued at the present value of expected net proceeds ultimately payable to UWRI.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although UWRI believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

4. SPECIAL PROGRAM INCOME

Special program income is attributable to the following programs for the years ended June 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---------------------|---------------------|
| Rhode Island After School Plus Alliance | \$ 513,066 | \$ 257,775 |
| United Way 2-1-1 in RI | 378,240 | 260,936 |
| Aging and Disability Resource Center | 291,563 | 403,081 |
| Bright Stars | 235,119 | 208,971 |
| Hurricane Sandy Recovery Fund | 109,137 | - |
| State Employees Charitable Appeal | 60,000 | 58,500 |
| Skill Up RI Grants | 27,500 | 25,000 |
| Federal Emergency Management Agency | 12,675 | 12,900 |
| Total | <u>\$ 1,627,300</u> | <u>\$ 1,227,163</u> |

5. CONTRIBUTION INCOME FROM THE RHODE ISLAND FOUNDATION – ROYALTIES

The Rhode Island Foundation (the Foundation) has ownership rights to several properties in Georgia from which clay called “kaolin” is mined. The clay is mined by a company known as BASF (formerly Englehard). BASF pays royalty income to the Foundation for the mined clay. At its discretion, the Foundation then contributes the royalty income to UWRI. For the years ended June 30, 2013 and 2012, the Foundation contributed approximately \$440,000 and \$533,000, respectively, of such royalty income.

6. AGENCY SUPPORT AND DONOR DESIGNATIONS

Donor-designated funds are those funds which a donor specifically states should be distributed to an agency, either directly or through their Philanthropy Account (commonly referred to as a P-Fund account). P-fund accounts are considered donor-advised accounts. P-Fund donors can periodically request UWRI to make distributions from their P-Fund accounts to specific agencies, including UWRI. UWRI must approve all requests for P-Fund account distributions to ensure that all requests comply with UWRI policies and procedures regarding charitable distributions.

Amounts undesignated by donors, as well as amounts designated for UWRI's Community Impact Fund, critical issue funds or special initiatives are distributed to agencies in the form of UWRI Community Investment grants.

Total designated and allocated funds for the years ended June 30, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|----------------------|----------------------|
| Designated by donors | \$ 5,897,556 | \$ 5,918,667 |
| Allocated by UWRI (Impact Group Grants, Emerging Issue Fund Grants, Special Initiatives Grants) | 6,601,497 | 6,996,848 |
| Total | <u>\$ 12,499,053</u> | <u>\$ 12,915,515</u> |

7. EMPLOYEE RETIREMENT PLAN

UWRI maintains a defined contribution pension plan which covers all employees who have worked at least 1,000 hours and for at least one year. Contributions to the plan range from 3% to 6% of an employee's salary depending on years of service. Contributions made by UWRI were approximately \$73,000 and \$70,000 for the years ended June 30, 2013 and 2012, respectively.

8. COMMITMENTS

Capital lease

UWRI has leased office space (21,842 square feet) covering the entire commercial portion of the Calendar Mills Building located at 50 Valley Street, Providence, Rhode Island. The lease had an initial 10-year term followed by two 5-year renewal options. The lease term was considered to be 15 years because the exercise of the first renewal option was deemed reasonably assured.

At the inception of the lease, the fair value of the property was comprised primarily of land with an estimated fair value of \$875,000. From inception of the lease through June 2008 (at which point UWRI took possession of the space) approximately \$2,139,000 of tenant improvements funded directly by UWRI were capitalized. The fair value of the leased property was estimated at \$3,900,000 based on an independent appraisal performed upon the building's completion in June 2008. UWRI established an initial capital lease asset and corresponding obligation of approximately \$886,000, which represented the fair value of the property net of (1) land, which is required to be accounted for separately as an operating lease, and (2) the aforementioned tenant improvements, which will be separately amortized over the lesser of their useful lives or the lease term. The operating lease for the land was accounted for on a straight-line basis over 15 years, at an annual rental expense of approximately \$60,000.

As of June 30, 2013, the present value of net minimum lease payments under the capital lease was as follows:

| <u>Year</u> | <u>Amount</u> |
|--|--------------------------|
| 2014 | \$ 328,577 |
| 2015 | 328,577 |
| 2016 | 328,577 |
| 2017 | 347,634 |
| 2018 | 347,634 |
| Years thereafter | <u>1,934,770</u> |
| Total minimum lease payments | 3,615,769 |
| Less amount representing estimated executory costs and profit thereon included in total minimum lease payments | <u>(1,773,701)</u> |
| Net minimum lease payments | 1,842,068 |
| Less amount representing interest | <u>(1,008,169)</u> |
| Present value of minimum lease payments | <u><u>\$ 833,899</u></u> |

As discussed in Note 13, UWRI purchased the land and the property under capital lease in September 2013.

Operating leases

UWRI also leases certain office equipment and land, as noted above, under operating lease agreements, expiring at various dates through 2023. The approximate future minimum lease payments under these leases as of June 30, 2013 are as follows:

| <u>Year</u> | <u>Amount</u> |
|------------------|-------------------|
| 2014 | \$ 89,000 |
| 2015 | 82,000 |
| 2016 | 58,000 |
| 2017 | 61,000 |
| 2018 | 61,000 |
| Years thereafter | <u>332,000</u> |
| Total | <u>\$ 683,000</u> |

For the years ended June 30, 2013 and 2012, rent expense under all operating leases amounted to approximately \$86,000 and \$95,000, respectively.

9. NET ASSETS

Unrestricted Net Assets

The Board of Directors has voted to provide for the use of the following unrestricted net assets in accordance with the board-designated purpose as of June 30, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|---------------------------------|---------------------|---------------------|
| Board-Designated Purpose: | | |
| Focus issue and program grants | \$ 956,324 | \$ 1,320,740 |
| Building acquisition | 1,075,015 | 1,329,245 |
| United Way 2-1-1 in RI | 271,783 | 442,432 |
| Endowment | 832,257 | 648,282 |
| Technology upgrades | 74,951 | 78,785 |
| Volunteer and advocacy programs | - | 88,958 |
| Internal operational reserve | 420,827 | 385,589 |
| Clay mine reserve | 493,110 | 532,588 |
| Total board-designated | <u>\$ 4,124,267</u> | <u>\$ 4,826,619</u> |

Temporarily Restricted Net Assets

For the years ended June 30, 2013 and 2012, temporarily restricted net assets are available for the following purposes:

| | 2013 | 2012 |
|---|------------|------------|
| RI Flood Recovery | \$ - | \$ 25,000 |
| Various program grants | 117,497 | 128,694 |
| RI Afterschool Plus Alliance (RIASPA) | 269,298 | 324,103 |
| Building Fund | 247,367 | 241,367 |
| United Way 2-1-1 in RI | - | 10,000 |
| Volunteer Income Tax Assistance | 14,736 | - |
| Bright Stars | 50,910 | 150,000 |
| Hurricane Sandy Recovery Fund | 10,282 | - |
| Financial Literacy | - | 100,000 |
| | <hr/> | <hr/> |
| Total temporarily restricted net assets | \$ 710,090 | \$ 979,164 |

Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2013 and 2012 are restricted to investment in perpetuity. Such permanently restricted net assets amounted to approximately \$98,400 at June 30, 2013 and 2012. The income can be used to support general operations of UWRI.

10. ENDOWMENT

UWRI's endowment includes both donor-restricted endowment funds and unrestricted funds designated by the Board of Directors to provide income for UWRI. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors has interpreted State of Rhode Island Uniform Prudent Management of Institutional Funds Act (R.I. UPMIFA) to mean that the Board of Directors is to exercise prudence when appropriating for expenditure or accumulation of endowment funds and consider the uses, benefits, purposes and duration for which the endowment funds are established. As a result of this interpretation, UWRI classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, plus (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified according to the wishes of the donor or as

established by the Board of Directors. When the donor has directed a specified use for investment earnings, the remaining portion of the endowment fund is classified as temporarily restricted net assets until funds are appropriated for expenditure by UWRI in a manner consistent with the standard of prudence prescribed by R.I. UPMIFA. In accordance with R.I. UPMIFA, UWRI, in making a determination to appropriate or accumulate, shall act in good faith, with the care that an ordinary prudent person in a like position would exercise under similar circumstances and consider, if relevant, the following factors:

- The duration and preservation of the endowment fund;
- The purposes of UWRI and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of UWRI; and
- The investment policy of UWRI.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or R.I. UPMIFA requires UWRI to retain as a fund of perpetual duration. As of June 30, 2013 and 2012, there were no such funds with deficiencies.

Return Objectives and Risk Parameters

UWRI has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that UWRI must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results over time, to provide an average annual rate of return that is in the top twenty percent as compared to the annual rate of return of other institutional endowments.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, UWRI relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). UWRI's investment strategy for these funds is to invest them with an independent financial trustee.

Spending Policy and How the Investment Objectives Relate to Spending Policy

UWRI has a policy of only appropriating for distribution the amount the independent financial trustee distributes to them annually. In establishing this policy, UWRI considered the long-term expected return on its endowment. Accordingly, over the long term, UWRI expects the current spending policy to allow its endowment to grow at an average of 4 percent annually. This is consistent with UWRI's objective to maintain prudence when appropriating for expenditure and to provide additional real growth through new gifts and investment return.

Endowment Net Asset Composition by Type of Fund as of June 30, 2013:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------------|--------------|---------------------------|---------------------------|------------|
| Donor-restricted endowment funds | \$ - | \$ - | \$ 98,393 | \$ 98,393 |
| Board-designated endowment funds | 858,190 | - | - | 858,190 |
| Total funds | \$ 858,190 | \$ - | \$ 98,393 | \$ 956,583 |

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|------------|
| Endowment net assets, beginning of year | \$ 671,788 | \$ - | \$ 98,393 | \$ 770,181 |
| Investment return - Net unrealized appreciation, net of Foundation support fee | 90,526 | - | - | 90,526 |
| Contributions | 120,891 | - | - | 120,891 |
| Appropriation of endowment assets for expenditure | (25,015) | - | - | (25,015) |
| Endowment net assets, end of year | \$ 858,190 | \$ - | \$ 98,393 | \$ 956,583 |

Endowment Net Asset Composition by Type of Fund as of June 30, 2012:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|--------------|------------------------|------------------------|------------|
| Donor-restricted endowment funds | \$ - | \$ - | \$ 98,393 | \$ 98,393 |
| Board-designated endowment funds | 671,788 | - | - | 671,788 |
| Total funds | \$ 671,788 | \$ - | \$ 98,393 | \$ 770,181 |

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|------------------------|------------------------|------------|
| Endowment net assets, beginning of year | \$ 549,889 | \$ - | \$ 98,393 | \$ 648,282 |
| Investment return - Net unrealized depreciation, net of Foundation support fee | (8,284) | - | - | (8,284) |
| Contributions | 150,564 | - | - | 150,564 |
| Appropriation of endowment assets for expenditure | (20,381) | - | - | (20,381) |
| Endowment net assets, end of year | \$ 671,788 | \$ - | \$ 98,393 | \$ 770,181 |

11. CONCENTRATIONS OF CREDIT RISK AND MAJOR DONOR

Financial instruments, which potentially subject UWRI to concentrations of credit risk, consist principally of cash and certificates of deposit.

UWRI maintains deposit accounts, including cash and certificates of deposit, at a number of financial institutions. The Federal Deposit Insurance Corporation (FDIC) provides insurance covering all deposit accounts per depositor and per insured bank, of up to \$250,000. As of June 30, 2013, UWRI's deposit accounts at six financial institutions exceeded the FDIC insurance limit. At various times, UWRI's deposit accounts held at any given financial institution may exceed the FDIC insurance limit. Management considers this to be a normal business risk.

Contributions from The Rhode Island Foundation, including income from The Rhode Island Charities Trust and clay mine royalties, represented approximately 27% and 29% of total revenue for the years ended June 30, 2013 and 2012, respectively. In addition, accounts receivable due from The Rhode Island Foundation represented approximately 12% and 11% of total receivables as of June 30, 2013 and 2012, respectively.

12. SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended June 30, 2013 and 2012, UWRI made cash payments of interest of approximately \$204,000 and \$206,000, respectively, in connection with the capital lease obligation for office space at the 50 Valley Street facility.

13. SUBSEQUENT EVENT

On September 11, 2013, UWRI purchased property located at 50 Valley Street for a total purchase price of \$3,250,000. Such property included the office space which UWRI has been leasing and a residential portion (land and building) which management intends to sell. The allocation of the purchase price was as follows:

| | |
|---------------------|---------------------|
| Land | \$ 488,000 |
| Building | 2,435,100 |
| Residential portion | <u>326,900</u> |
| Total | <u>\$ 3,250,000</u> |

In order to finance the acquisition of the property, UWRI paid \$750,000 in cash and executed a note payable with a bank in the amount of \$2,500,000. The note payable to a bank is collateralized by certain property and fixtures and requires interest at 4.88% annually. The note requires monthly payments of interest only through August 2015. Commencing in September 2015, the note requires monthly payments of principal and interest of \$13,238 through August 2023, at which time all principal and interest is due. Scheduled maturities on the aforementioned note are as follows:

| <u>Fiscal Year Ending</u> | <u>Amount</u> |
|---------------------------|---------------------|
| 2014 | \$ - |
| 2015 | - |
| 2016 | 31,279 |
| 2017 | 39,250 |
| 2018 | 41,209 |
| 2019 and thereafter | <u>2,388,262</u> |
| Total | <u>\$ 2,500,000</u> |

In connection with the note payable to the bank, UWRI is subject to certain restrictive covenants, which require, among other things, a minimum debt service coverage and a loan to value ratio.
